Lower Taxes for a Stronger Economy

Nova Scotia: *Let's Keep Growing*

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"There are no quick fixes or easy solutions. Only by having a sound plan for economic growth and job creation are we going to be able to provide the services that Nova Scotians expect and deserve."—

Premier John Hamm in *Strong Leadership ... a clear course*

Introduction

Strong Leadership ... a clear course, the guide that has come to be known as the "Blue Book," clearly set the agenda for government's four-year mandate.

The plan was straightforward, but not simple.

Nova Scotia needed first to balance its budget and control its debt. It needed to take the steps required to ensure ongoing delivery of key services—like health care and education. Then it needed to implement measures that would help keep Nova Scotia competitive and that would encourage new economic development, including gradual tax changes.

The success of the plan relied on a measured approach. Three years of concerted effort were needed before personal income taxes could be lowered. Government had to be living within its means. It also needed to be delivering the services that Nova Scotians wanted and needed. The province had to make a good start at encouraging the job growth that would stimulate the economy. Then taxes could be lowered.

Lower personal income taxes were a key component in the ongoing strategy, a plank in the platform of economic competitiveness, a way to help encourage new economic growth. The work involved in strengthening the economy took further shape in *Opportunities for Prosperity: A New Economic Growth Strategy for Success.* A comprehensive guide that established the framework for action, it set strategic targets to improve competitiveness. Among the measures it cited for long-term growth in the business climate was the aim of establishing, by 2005, "the most attractive business tax structure in the region."

A balanced budget, clear accounting, and protected services have all been part of the carefully prepared plan from the start. So have lower personal income taxes.

"We are confident," the Blue Book said, that a personal income tax cut of 10 per cent in the fourth year of the government's mandate "will lead to increased revenues that will allow for further investments in essential services."

A Competitive Edge

The plan to reduce taxes is not new. Premier Hamm took it to the people four years ago: A sound plan for economic growth included putting "tax dollars back into the hands of Nova Scotian consumers by reducing personal income taxes" by 10 per cent in the fourth year of this government's mandate.

One part of the reasoning was clear. Lower taxes help working families by putting money back into the pockets of hard-working people.

But lower taxes do more. In fact, the most significant benefits may be long term. This is why every other province in Canada has already

lowered personal income taxes. If Nova Scotia is to remain "Open for Business," its tax structure has to remain competitive.

The Cycle At Work

Atlantic Canadians are familiar with the notion of people "going down the road." For years, we watched as our young people left the area to find good jobs. Today's global economy means this no longer has to be the case.

In today's information age, highly educated and skilled workers, an entrepreneurial spirit, and a minimum of red tape can spark real economic growth.

Lower taxes are an essential part of our long-term plan. Provinces with lower personal taxes can attract, and retain, skilled workers. This is more than a short-term phenomenon: it is part of a cycle. A skilled labour pool can encourage businesses to invest in further growth. Business operators know that they can keep good workers in an area, and attract new ones, if personal income taxes are competitive. Skilled workers are in demand; they can go where they want to go.

Looking For Results

We don't need to look far to find the cycle at work. In Ontario, an ongoing program of tax reform has included personal income tax reductions of 30 per cent since 1996. In a 2002 budget report, the Ontario government said cuts have "established a more competitive personal income tax system that is more attractive to both highly skilled workers and investors."

And Ontario is not alone. In British Columbia, provincial taxes were cut by 25 per cent for all taxpayers in 2001. That same year Saskatchewan introduced tax cuts that it said would lower taxes there by at least 11 per cent in all tax brackets by 2003. In Manitoba, tax reductions have been recorded since 2000 that now amount to $181 million annually, and Quebec has seen tax reductions of 20 per cent.

Closer to home, New Brunswick has undertaken an aggressive plan that includes personal income tax reductions since 1999 that now total $130 million annually.

To continue to attract and retain jobs and to encourage skilled workers to move here instead of elsewhere, government needs to offer Nova Scotians the lowest possible tax burden while retaining the revenues needed to sustain high-quality public services. Simply put: Make it attractive to live here, and people will.

Nova Scotia is the only province that has not implemented lower personal income taxes. It is now in a position to do so.

In Nova Scotia

The Taxation System

Lower personal income taxes are not the start of something new; they are another increment, a step in ongoing tax reforms. The reforms began with a systematic review and restructuring of personal and corporate income tax credits in 1999–2000.

In 2000, Nova Scotia moved to a new, more flexible system of calculating personal income taxes. The so-called TONI (tax-on income) system gave Nova Scotia the ability to better tailor the provincial taxation system to its own specific needs and objectives rather than being so closely tied to the federal system.

Although an agreement with the federal government still dictates some aspects of the system, the province now has better flexibility should it decide to redefine the income brackets, marginal rates, and, to a large extent, the types of non-refundable credits it uses. That flexibility means the province can continue to see that taxes do best what they are intended to do: fairly share the load for critical services of universal good.

Budgeting, Services, and Debt Management

Balancing the budget was the first step in an ongoing plan that gives the province the ability to make decisions based on what Nova Scotians want and need. The balanced budget also sent an important message about the province's ability to live within its means. It demonstrated to creditors and to investors that the province is serious about managing its economy and providing the opportunities necessary for future growth.

To keep the economy growing, Nova Scotia needs to continue this balanced, logical approach. That means not borrowing money for operating costs. It means spending more on the things that matter most. It means developing an economy that is robust enough that it can enhance our ability to manage and pay down our debt as well as ensuring essential programs for the future.

Nova Scotians have made it clear that certain of these programs are top priorities. That is why spending on those critical services continues to increase. In 2002–03, health spending was increased to $1.98 billion, $134 million more than in the previous year. Education spending grew by $23 million. Government spent $85.5 million improving roads and highways, which is $32 million more than was spent in 2001–02. In total, Nova Scotia spent more than $3 billion on health care, education, and roads—taxpayers' dollars at work on the programs that they want and need. These investments will continue to grow in 2003–04.

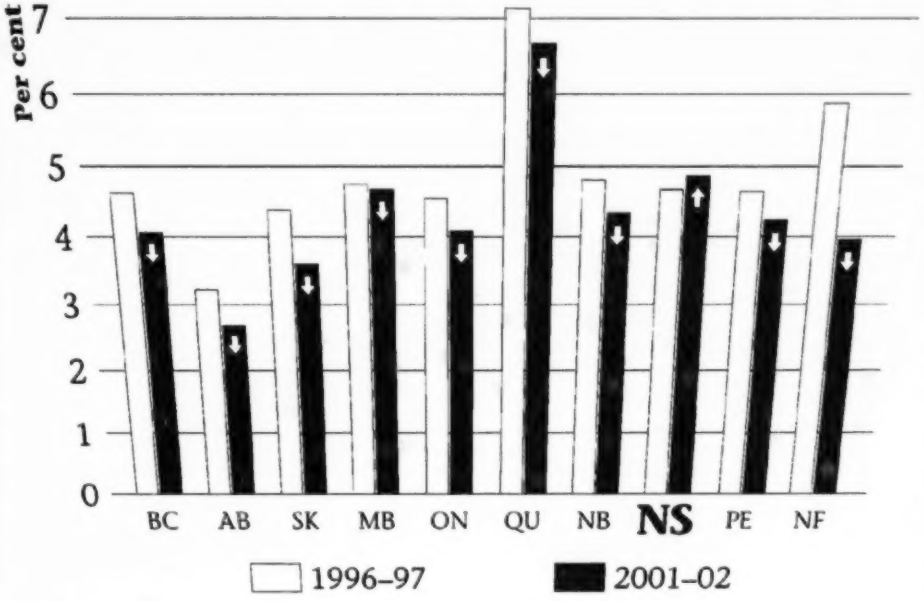
The province has also taken great strides on its path towards a self-sustaining economy. Our net direct debt to GDP ratio—what we owe in relation to what we produce—now stands at 42 per cent. That's down from 48 per cent just three years ago. Like a homeowner who is more easily able to meet mortgage payments after a salary increase, the province is now better able to meet its commitments because its debt level has been stabilized and the economy is growing.

In March 2003, the province once again set a new employment record—the fourth since the fall of 2000. Statistics Canada says that 1,000 more Nova Scotians were employed in February of this year than in January, just one month earlier. Since July 1999, more than 26,000 new jobs have been created. That means more Nova Scotians contributing to our shared prosperity, and feeling good about themselves.

All of these things are important for Nova Scotians in the short term. They also work to the collective good in the long term. They show business operators and prospective investors that the province provides a business-friendly environment, a place where work can be done and life enjoyed.

Still, Nova Scotia is the only province that has not lowered personal income taxes in recent years.

Personal Income Tax Revenue as a Percentage of GDP



Comparing Tax Burdens:

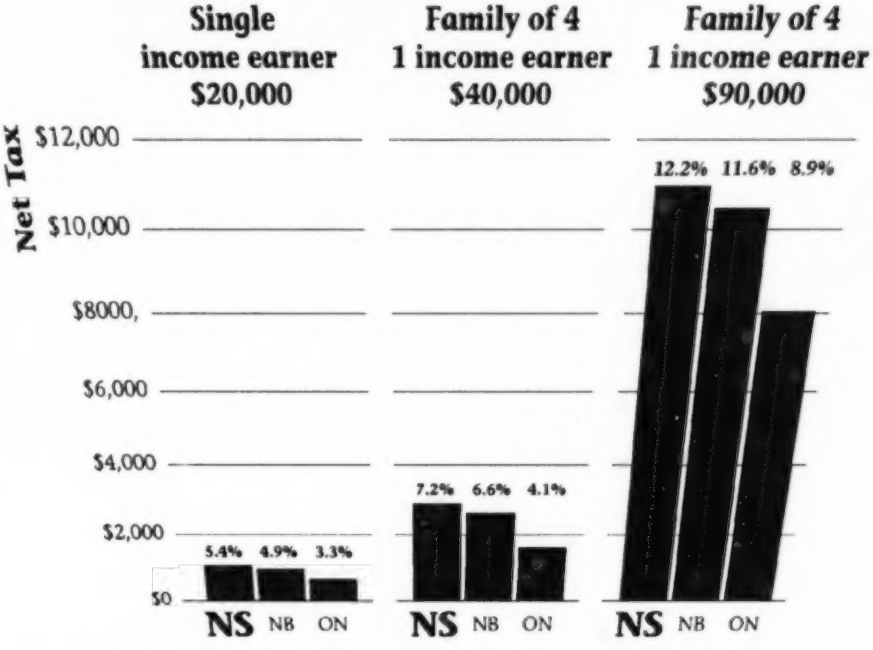
Direct province-by-province comparisons of tax regimes are difficult. Comparisons can be made of marginal rates used by provinces in varying tax brackets.

Such comparisons, however, do not take into account other variables, like tax credits and indexation, that influence the taxpayer's bottom line.

There are other ways, though, of assessing our standing. We can, for example, compare the tax burdens of families and individuals in similar circumstances but different locations.

An individual earning $20,000 in Nova Scotia, for example, would pay more than $1,000 in personal income taxes. That same individual would pay less than $700 in Ontario. A family of four with one income provider earning $40,000 would pay $250 less in personal income taxes in New Brunswick than in Nova Scotia. The family of four in New Brunswick would save more than $500 if the income provider earned $90,000.

Comparative Tax Payable, 2003



By lowering personal income taxes, Nova Scotia will be taking another step towards better competitiveness in the future.

This comes at a critical time. The Nova Scotia Business Climate Index

(BCI) shows Nova Scotia ranked fourth in the country for personal income tax competitiveness based on the most recent Statistics Canada date available. Analysis under way with preliminary new data, however, indicates the next BCI will show that ranking has slipped as a result of income tax cuts in the other provinces. Data used by the province of Alberta, meanwhile, shows Nova Scotia logging a disappointing ninth place on that province's scale of income tax competitiveness.

Lower income taxes will allow Nova Scotians to keep more of their take-home pay, which they can spend or invest as they wish. Importantly, too, lower taxes will help Nova Scotia compete with other provinces for the best and brightest. Competitive income taxes even affect our ability to attract and retain important service providers such as doctors, researchers, and entrepreneurs. Economies often rely on those earning the highest incomes to drive economic growth and create additional employment. This growth is important to ensure both our quality of life and government funding for services and programs.

Indeed, the Conference Board of Canada's director of economic forecasting recently told a Halifax group that the government's plan for lower taxes will help fuel consumer spending in the second half of this year and keep economic growth strong. He said his agency's projections for 2.7 per cent growth in Nova Scotia relied on several factors, including the implementation of that plan.

Fair for All

Nova Scotia needs to continue its steady implementation of a long-term plan to keep the economy growing. Lower taxes are one part of that plan. Lower personal taxes are the logical starting point—and a bonus for taxpayers who get to keep more of their hard-earned pay.

In Conclusion

Lower taxes are another step in our ongoing efforts to make Nova Scotia's economy strong and its growth self-sustaining. Balancing the budget allowed us to invest where we want to invest—in health care and in education. While we still borrow to cover capital investments, like all sensible business operators or even homeowners, we no longer need to borrow to cover our operating costs.

Balanced budgets and a vital and growing economy are the best debt-reduction plan.

Establishing a more competitive personal income tax system will make Nova Scotia more attractive to highly skilled workers, to business operators, and to investors. It also helps taxpayers in the short term by putting more money in their pockets now.

Like a good education, or quality health care, a sensible tax regime is key to long-term economic prosperity. If Nova Scotia is to generate the revenues it needs to pay for the health care, education, and roads of the future, it needs to compete for new investments today.

Lower taxes are an important step in making sure that Nova Scotia is a good place to invest—and to live.